

ENHANCING EXPORT COMPETITIVENESS THROUGH TRADE FACILITATION: THE EXPERIENCE OF SRI LANKA

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Introduction

Sri Lanka has 65,610 km² of land and a population of 21 million, and is strategically located in the Indian Ocean along major air and sea routes between Europe and East Asia. Its geographical position has provided the country with the natural advantage of becoming an important trading and logistics hub. It also has one of the most liberal trade regimes in the region, with the lowest applied most-favoured nation tariffs in South Asia (World Trade Organization, 2007). After adopting an import-substitution trade policy in the 1960s and 1970s, Sri Lanka liberalized its economy in 1977, becoming the first South Asian country to do so. With that, it switched to more market-oriented policies and export-oriented trade, undertaking unilateral and regional trade liberalization over the years while participating in multilateral negotiations. Fuelled by the fact that Sri Lanka is a small island economy with a limited domestic market and resource base, international trade has been increasing steadily over the years after trade liberalization, playing a significant role in the Sri Lankan economy. In 2008, Sri Lanka exported goods worth \$8,137 million while importing goods worth over \$14 billion, and trade in goods and services together accounted for over 63 per cent of the country's gross domestic product (GDP).

In line with the liberalization of the economy, the Government of Sri Lanka undertook several measures to introduce accompanying policies that would facilitate trade and integrate the economy with the global economy. By appointing the National Trade Facilitation Committee in 1980 as per ECE/CEFACT Recommendation IV,¹ Sri Lanka was a forerunner in implementing trade facilitation in Asia. Through this Committee, Sri Lanka introduced trade and transport facilitation documents aligned with the United Nations Layout Key for Trade Documents, among other best practices. However, the country's status in using information and communications technology (ICT) as a tool to facilitate trade is not satisfactory and lags behind other countries in the region such as Singapore and Malaysia. Although Sri Lanka's competitiveness has increased over the years,² with

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¹ Recommendation IV addresses "national trade facilitation organs: arrangements at the national level to coordinate work on facilitation of trade procedures". See Economic Commission for Europe, United Nations Centre for Trade Facilitation and Electronic Business, *Summary of UN/CEFACT Trade Facilitation Recommendations* (ECE/TRADE/346).

² Rankings are based on *The Global Competitiveness Report* (Geneva, World Economic Forum, 2002-2007).

a Global Competitiveness Index ranking of 70 for 2007-2008 (out of 131 countries), the current status of transport and infrastructure in the country has been a significant disadvantage in terms of export competitiveness.

Much more needs to be done to reduce delays, improve customs and port procedures, link up the relevant agencies, and so forth. Similarly, in the transport sector, the development of roads and railways has been insufficient, and improvements in the efficiency of the ports and the reduction of handling charges are required. The Government of Sri Lanka has nevertheless identified these deficiencies and put forward "Randora", a national infrastructure development programme under the country's Ten Year Development Framework 2006-2016, which is likely to ease some of the constraints to trade. This includes the transport sector, and strategies have been proposed to develop railways, to expand the ports at Colombo and Galle, to build new ports in Hambantota and Oluvil and to build national highways. Infrastructure development has been identified as a means of not only improving the access of the poor regions and reducing poverty levels in the country but also facilitating trade with the greater participation of the small and medium-sized enterprises sector in exporting to markets abroad.

A. Current status

One of the major steps initiated by the Government to facilitate trade in Sri Lanka was the establishment of the National Trade Facilitation Committee in 1980. This Committee, which later adopted the name SRILPRO, was given legal status as an advisory committee to the Export Development Board under the Sri Lanka Export Development Act 40 of 1977. SRILPRO was widely represented by both the public and the private sector³ and it laid the foundation for the introduction of key trade facilitation initiatives in the country. Among its main achievements was the introduction of a set of three documents aligned with the United Nations Layout Key for Trade Documents. In spite of these early achievements, SRILPRO died a natural death towards the end of the 1990s. Currently, there is no Government institution responsible for undertaking trade facilitation measures in the country, which is unfortunate given the important role it could play in supporting Sri Lankan trade and commerce.

The performance of Sri Lanka in relation to selected indicators of trade facilitation is given in table 1. The performances of some other South Asian countries, as well as Singapore, a country in the region where trade facilitation initiatives have yielded significant results, are illustrated in the table. Despite the measures undertaken by Sri Lanka so far, the burden of customs procedures in doing business is still high, just surpassing the mean value. This is evident from the amount of paperwork involved in the import and export process. In importing goods, for example, five copies of the customs declaration have to

³ Examples in the public sector include the Ministry of Trade and Shipping, the Department of Customs, the Department of Commerce, the Central Bank of Sri Lanka and the Sri Lanka Ports Authority. Examples in the private sector include the Sri Lanka Freight Forwarders Association, the Sri Lanka Shippers Council and the Sri Lanka Bankers Association.

Table 1. Selected indicators of trade facilitation in Singapore and South Asia

| | Mean | Bangladesh | India | Nepal | Pakistan | Singapore | Sri Lanka |
|---|------|------------|-------|-------|----------|-----------|-----------|
| Hidden barriers to trade (1)* | 4.5 | 3.8 | 4.7 | .. | 3.8 | 6.3 | 4.9 |
| Burden of customs procedure (2) | 3.9 | 2.3 | 3.6 | 2.5 | 3.4 | 6.4 | 4.0 |
| Overall infrastructure quality (3) | 3.8 | 2.2 | 3.1 | 1.9 | 3.4 | 6.6 | 3.3 |
| Road quality (4) | 3.7 | 3.1 | 3.1 | 3.1 | 3.6 | 6.6 | 3.1 |
| Railroad infrastructure quality (5) | 2.9 | 2.3 | 4.5 | 1.3 | 3.2 | 5.7 | 2.8 |
| Port infrastructure quality (6) | 4.0 | 2.4 | 3.5 | 3.0 | 3.7 | 6.8 | 4.1 |
| Air transport infrastructure quality (7) | 4.6 | 3.0 | 4.8 | 3.4 | 4.2 | 6.9 | 4.5 |
| Transparency of Government policymaking (8) | 4.1 | 3.5 | 4.4 | 3.2 | 3.5 | 6.1 | 4.0 |
| Global Competitiveness Index (rank) | – | 107 | 48 | 114 | 92 | 7 | 70 |

Source: Michael E. Porter, Xavier Sala-i-Martin, Klaus Schwab, eds., *The Global Competitiveness Report 2007-2008* (Geneva, World Economic Forum, 2007).

Notes: * Data is based on *The Global Competitiveness Report 2004-2005*.

(1) 1 = important problem, 7 = not an important problem

(2) 1 = extremely slow and cumbersome, 7 = rapid and efficient

(3) 1 = underdeveloped, 7 = as extensive and efficient as the world's best

(4) 1 = underdeveloped, 7 = extensive and efficient by international standards

(5) 1 = underdeveloped, 7 = as extensive and efficient as the world's best

(6) 1 = underdeveloped, 7 = as developed as the world's best

(7) 1 = infrequent, limited and inefficient, 7 = as frequent, extensive and efficient as the world's best

(8) 1 = never informed, 7 = always informed

be submitted (warrant, delivery, statistical, exchange and consignee copies). Another two copies are required for the Registrar of Motor Vehicles, one for motor vehicles and one as an excise copy. In addition, up to 11 documents need to be submitted together with the customs declaration depending on the good that is being imported.⁴ For exporting, four

⁴ They are (a) delivery order, (b) bill of lading, (c) invoice, (d) exchange documents, (e) packing list, (f) certificate of origin, (g) import control license (if applicable), (h) certificate of registration and translation for used motor vehicles, (i) load port survey certificate for food items, (j) Sri Lanka Standards Institution quarantine certificate (where applicable) and (k) catalogues/literature (if necessary).

copies of the customs declaration are required (warrant, statistical, security and parties copies) with additional copies needed for bonded cargo and airfreight cargo. Exporting liquor and coconut products requires two additional copies of the customs declaration form (excise copy and Coconut Development Authority copy). Apart from these, export control permits are required when exporting three items.⁵ Licences and permits are also necessary when exporting goods such as tea, antiques, plants and animals, and firearms. Interviews with stakeholders reveal that there are 8 to 10 steps⁶ in the processing of a goods declaration and approximately 8 signatures are required by customs alone.

The survey findings of *The Global Competitiveness Report 2007-2008* also show that businesses in Sri Lanka are not very clearly informed by the Government on changes in policies and regulations affecting the relevant industries. A study carried out by Weerakoon, Thennakoon and Weeraratne (2005), entitled "Multilateral agreement on trade facilitation", reiterates this.⁷ The study shows that laws, regulations, formalities and procedures that have to be followed in Sri Lanka are still complex and irrational. It also demonstrates that collecting trade-related information is time-consuming and costly, especially for new traders: 60 per cent of the respondents found it difficult to access information on laws and administrative rulings.

Although Sri Lanka has the highest road and railroad density in South Asia, the overall quality of the infrastructure in the country is below the average level. Sri Lanka's road network is currently about 117,093 km, which is an increase of 20 per cent from the road network in 1995, when it was approximately 97,377 km. Nevertheless, maintaining and improving the available road network has been a long-felt need. Since 2003, total public expenditure allocated for roads has increased: from 0.7 per cent of GDP in 2003 to 2.26 per cent in 2006. This is encouraging because, prior to this increase, the allocations had been hardly sufficient to cover routine and periodic maintenance.⁸ Nevertheless, road capacity, especially in Colombo and urban areas, has not increased in relation to the increasing number of vehicles. This has led to severe traffic congestion hindering commercial traffic in the city. It has been estimated that traffic congestion reduces vehicle speed up to 12 km per hour in the mornings and evenings. Cargo transport has therefore been restricted, and additional fuel costs that are incurred as a result of congestion are considerable, affecting the prices (and quality) of goods exported. Security checkpoints that have been set up due to the conflict situation in the country have also hindered the free flow of traffic.

⁵ The three items are coral chunks, timber and motor vehicles first registered in Sri Lanka prior to 1 January 1945.

⁶ The steps may include the receiving counter, keying in, payment, accounts updating (for cash declarations), channel selection, grading requirements, warranting and the delivery counter.

⁷ The survey was limited to Colombo District and consisted of a sample of 37 respondents, including exporters/importers, shipping agents/shippers, clearing freight forwarders, logistics providers and government officials.

⁸ As a result, less than 5,000 km (5 per cent) of the total road network has been upgraded in the last 10 years.

Table 2. Freight handled by Sri Lanka Railways, Sri Lankan Airlines and Sri Lanka ports

| | 1995 | 2000 | 2006 | 2007 |
|--|-------|-------|-------|-------|
| Sri Lanka Railways | 148.1 | 88 | 138 | 135 |
| – freight ton km (million tons) | | | | |
| Sri Lankan Airlines | .. | 34 | 98 | 98 |
| – freight (in thousand metric tons) | | | | |
| Sri Lanka ports | | | | |
| – total container traffic (in thousand twenty-foot equivalent units) | 1 049 | 1 733 | 3 079 | 3 381 |

Source: Central Bank of Sri Lanka, *Annual Report* (Colombo, 1996, 2000, 2006-2008).

Goods transported are subject to security checks at various points, including at seaports and airports.

The railway network comprises 1,640 km,⁹ which has largely remained at the same level since the country's independence. The use of railways for freight transport is very limited; its current share of freight transport is just 1 per cent. However, ports and shipping play an important role in the economy. Sri Lanka has three deep seaports (Colombo, Trincomalee and Galle) but due to its proximity to main international shipping routes, only the Colombo Port has achieved any commercial importance. About two thirds of the cargo throughput is trans-shipment cargo to and from India. In terms of the infrastructure of the ports, Sri Lanka has made improvements surpassing the average levels. Port services have improved significantly, with total cargo handling recording a growth of over 9 per cent in 2007 and 2008 compared to previous years (table 2). It also recorded the greatest annual number of containers ever handled in its history. Apart from export/import growth, these improvements can be attributed to productivity improvements resulting from increasing berth and yard capacity, the replacement of old cranes with modern ones and the introduction of a new terminal management system. Nevertheless, in the survey carried out by Weerakoon, Thennakoon and Weeraratne (2005), 36 per cent of the respondents experienced losses and additional costs due to delays in clearing that stem from the lack of clearance facilities and equipment, limited working hours at customs and ports, and delays in inspection despite the introduction of the red, amber and green channels. The study noted that delays arising from trade procedures can add significant costs and losses for traders in terms of shipment rejections or the acceptance of shipments at a discount.

It has also been pointed out that the charges imposed by the relevant authorities are large in number and amount; a majority of the respondents considered the fees to be unreasonable. For example, the terminal handling charge in Sri Lankan ports is the

⁹ The railway operates only 1,200 km, however, due to the fact that several sections in the north and the east of the country are closed.

highest in the region, with charges in Bangladesh, China, India, Japan, Malaysia, the Philippines, the Republic of Korea, Singapore, the United Arab Emirates (Dubai) and Viet Nam being lower. It is the belief of traders, shippers and other stakeholders that charges such as terminal handling charges have negatively affected Sri Lanka's export competitiveness, with exporters incurring about \$16.8 million as terminal handling charges.

Rent seeking in institutions involved in the import/export process is also a major issue. It has become an accepted phenomenon among exporters/importers, and some pay up to 50 per cent of the total clearing cost in unofficial payments. According to the survey, 85 per cent of the respondents had to pay bribes as they could not clear the goods without such transactions. However, it is interesting to note that 35 per cent of the respondents believed that corrupt practices had decreased in recent years following duty reductions and procedural improvements.

Although automation is not a panacea to trade facilitation, cumbersome paper work and rent seeking, among other things, can be reduced by the related agencies in the export/import process by adapting to automation. In Sri Lanka, therefore, there is a need to fully implement the electronic data interchange (EDI) system. Even though more developed web-based solutions may be available, both traders and agents are vehemently calling for a fully fledged EDI system to reduce paper work, increase efficiency, save resources and time, reduce rent seeking and improve security in the port. Currently, only the customs declaration can be lodged electronically. After this first step, exporters/importers must physically visit customs and the other relevant Government agencies to clear their goods and make their payments.¹⁰ Many traders and agents lodge customs declarations manually since the services they receive electronically are limited, considering the extra payment they make to use them. Ironically, lodging customs declarations electronically has increased the lodgement costs since there are additional costs involved (payments should be made both to the service provider and to customs).

B. Initiatives to enhance export competitiveness through trade facilitation reforms

Export competitiveness can cover a wide range of aspects that enable the country to produce and sell goods and services in foreign markets of a quality and at prices that ensure long-term viability and sustainability. Improved trade logistics and facilitation could have a significant impact on improving trade competitiveness by: (a) increasing the profitability of existing exports and encouraging expansion in production, (b) reducing the delivery time and cost of imports, benefiting both domestic and export sectors, (c) allowing manufacturers to enter higher value market segments, such as premium garments, which require shorter delivery cycles, and (d) opening up new markets, such as high value horticulture (for example, flowers and fruit) (World Bank, 2008).

¹⁰ An exception is the Tea Board, which is the only agency linked to the system. However, exporters still have to visit the Tea Board if a consignment is selected for sampling.

As previously stated, in terms of competitiveness, Sri Lanka has been ranked 70 out of 131 countries, with its ranking improving over the years. Nevertheless, the overall infrastructure quality in Sri Lanka, as well as infrastructure quality indicators (consisting mainly of infrastructure development in transport),¹¹ has been deemed to have a negative effect on Sri Lanka's competitiveness (table 3).

Table 3. Most problematic factors in doing business in Sri Lanka

| <i>Factor</i> | <i>Percentage of responses</i> |
|--|--------------------------------|
| Policy instability | 13.0 |
| Inflation | 11.5 |
| Inefficient government bureaucracy | 10.2 |
| Inadequate supply of infrastructure | 9.9 |
| Corruption | 8.4 |
| Access to financing | 8.0 |
| Restrictive labour regulations | 8.0 |
| Government instability/coups | 7.3 |
| Tax regulations | 6.9 |
| Tax rates | 6.9 |
| Poor work ethic in national labour force | 4.7 |
| Inadequately educated workforce | 2.3 |
| Foreign currency regulations | 1.4 |
| Crime and theft | 1.3 |

Source: Michael E. Porter, Xavier Sala-i-Martin, Klaus Schwab, eds., *The Global Competitiveness Report, 2007-2008* (Geneva, World Economic Forum, 2007).

In addition to inadequate infrastructure, some of the most problematic factors for doing business in the country include policy instability, inflation and inefficient government bureaucracy. Inadequate infrastructure has consistently been on the list of the top five most problematic factors for doing business in Sri Lanka. Rising fuel costs, wages, and high inflation and interest rates have amplified the need for improved trade and transport facilitation in order to reduce production costs and improve the competitiveness of Sri Lankan exports.

Several initiatives on trade and transport facilitation have had an impact on export competitiveness.

¹¹ Quality of roads, quality of railroad infrastructure, quality of port infrastructure, quality of air transport infrastructure, available seat kilometres, quality of electricity supply and telephone lines.

(a) *Eliminating unnecessary paperwork and procedures.* As in other developing countries, the enterprises in Sri Lanka suffer from time-consuming and costly trade procedures and documents. Simplifying and aligning trade documents and procedures are strongly beneficial to enterprises in conducting international business, thus conducive to national trade competitiveness. The authorities in Sri Lanka eliminated some unnecessary import/export controls and took measures to reduce paperwork by introducing in the 1980s the United Nations Layout Key for Trade and Transport documents.

(b) *Adaptation of the Automated System for Customs Data (ASYCUDA) by Customs and the use of EDI.* In 1992, with the introduction of computer systems, Sri Lanka customs established the Automated Data Procession Division. Since 1994, ASYCUDA has been used to process customs declarations, and in 1998, the system was updated to ASYCUDA++. This has led to some improvement in the processing times of customs declarations.

EDI facilities have been available for Sri Lankan exporters/importers since the establishment of “eServices” (the service provider) in 2002. Although several years have passed since then, full EDI facilities are still not available, with only the Tea Board being linked to the system. Only the first component of the long import/export clearing process has been automated; customs declarations can be lodged electronically by export/import companies using EDI for a payment of \$2.50 to the service provider. Nevertheless, after lodging the customs declarations electronically, the exporters/importers have to visit customs and other related agencies with a hard copy of the customs declaration to get the relevant authorizations (another payment has to be made at customs). The usage of EDI is limited, with only about 30 per cent of garment exporters using it to lodge customs declarations. Despite the additional costs involved, many large-scale garment exporters prefer to use EDI because customs declarations can be lodged 24 hours per day and because it can reduce transport and staff costs. Small-scale garment exporters gain indirectly from EDI; because large-scale producers use the electronic service, there are shorter queues at the Board of Investment. An interview with members of the Joint Apparel Associations Forum revealed that, of the free-on-board costs, transaction costs amount to 8-14 per cent and that transaction costs could be reduced to 4-6 per cent if electronic commerce were properly integrated.

(c) *Introduction of the Sri Lanka Automated Cargo Clearing System in the ports.* According to the most recent rankings of the World Bank’s Trading Across Borders, Sri Lanka’s level of competitiveness increased from ninety-ninth position in 2006/07 to sixtieth position in 2007/08 (table 4).

The single most important factor behind the country’s improvement in the rankings is the reduction in logistics time. The number of days to import a standard container has been reduced by six and the number of days to export a standard container by four. This is mainly due to fast-tracking by the Sri Lanka Automated Cargo Clearing System at the Sri Lanka Ports Authority. The current system available covers the online acceptance of shipping notes and cargo dispatch notes by shipping lines and the Ports Authority, online

Table 4. Procedural requirements for importing and exporting a standardized cargo of goods (2006-2008)

| | 2006/07 | 2007/08 |
|-----------------------------------|---------|---------|
| Trading Across Borders ranking | 99 | 60 |
| Documents for export (number) | 8 | 8 |
| Time for export (days) | 25 | 21 |
| Cost to export (\$ per container) | 797 | 810 |
| Documents for import (number) | 13 | 6 |
| Time for import (days) | 27 | 21 |
| Cost to import (\$ per container) | 789 | 844 |

Source: www.doingbusiness.org/exploretopics/tradingacrossborders/.

bill payments, and the online submission of export bills by the Ports Authority to exporters or freight forwarders. This has resulted in a reduced turnaround time, reduced lead times and an accelerated cargo dispatch related to the garment industry. The full implementation of the Automated Cargo Clearing System would cut down the costs for all imports and exports.

(d) *Ports-related developments.* The development of the ports, especially of the Colombo Port, such as an increased yard capacity, the usage of a higher number of cranes and the replacement of old cranes with modern ones, allowing the private sector to engage in terminal operations, and some flexibility in operations with regard to working hours, have improved the efficiency of the ports. This has had a positive impact not only on the garment industry, which is time-sensitive, but also on the entire economy.

Colombo Port handles 95 per cent of Sri Lanka's total international trade, with the majority of traffic being for trans-shipment purposes: since 1995, trans-shipment has accounted for 70 per cent of Colombo's total container traffic (ADB, 2008). The Colombo Port Expansion Project will expand the Port's capacity, thereby promoting the country's competitiveness (ADB, 2008).¹² The project is expected to benefit Sri Lankan exporters by enhancing their competitiveness in the global markets through lower freight costs and faster delivery times. This will especially affect time-sensitive exports such as those in the textile and garment industries.

(e) *Electronic certificate of origin.* In addition to the Government initiative to automate, albeit partially, the trading process, the private sector, in the form of the Ceylon Chamber of Commerce, has taken measures to facilitate trade in the country by introducing "e-CO", a web-based certificate of origin (CO) application system. With this system, exporters can submit applications for COs electronically. This eliminates the need for exporters to physically collect the application form, complete it and bring it to various

¹² Container-handling capacity is to increase from 3.3 million twenty-foot equivalent units (TEUs) in 2006 to 5.7 million TEUs by 2010, 8.1 million TEUs by 2015 and 10.5 million TEUs by 2024.

chambers for endorsement. Now, exporters/agents can access and download a form and apply for a CO electronically, reducing the time and money required to send in the application form and supporting documents required for CO authentication. This has resulted in a lower turnaround time in issuing COs. About 50 exporters are currently making use of this system.

C. Way forward

Sri Lanka was a pioneer in adopting measures to improve trade facilitation in the country and has made modest improvements in certain areas of trade facilitation. Despite the progress made, trade facilitation indicators in Sri Lanka are poorer than in other countries in the Asian and Pacific region, such as Singapore, with much more remaining to be done. With stakeholders in the country recognizing the value of improving and upgrading procedures and facilitating the movement of goods, it is important that the Government takes the initiative to identify trade facilitation needs, prioritize them and undertake measures to implement them. Some areas of trade facilitation that need to be addressed are given below.

- (a) Establish a permanent committee working on trade and transport facilitation in the country. In the 1980s and the 1990s, SRILPRO, with Government backing, undertook crucial initiatives to develop trade facilitation in Sri Lanka. However, there has been no Government agency working on trade facilitation in recent times. Therefore, stakeholders have strongly expressed the need for an inter-ministerial committee to drive the relevant projects. Given its importance to all aspects of the country, it has been suggested that such a committee be headed by the Ministry of Trade.
- (b) Have an import/export clearance process with proper connectivity. The existing automated system in Sri Lanka is a piecemeal system providing capacity only to lodge customs declarations electronically. Of over 30 agencies involved in the import/export process, only the Tea Board is linked to the system, while customs, the Board of Investment and the ports are partially linked. Measures need to be taken to link all the relevant agencies with EDI. Legislation should be introduced in order to bring all the stakeholders under a single protocol. This would reduce the amount of paperwork required, especially by customs, and thereby lower the burden of customs procedures for traders.
- (c) Currently there is a monopoly in providing the services of EDI. Stakeholders are of the view that other service providers should be given access to provide the services in order to bring competition and efficiency to the market. It is also necessary to explore the benefits of using web-based applications such as UNeDocs.
- (d) As previously stated, the current status of transportation infrastructure and services in the country has a negative impact on the export competitiveness of Sri Lanka. A comprehensive infrastructure development programme has been introduced by the Government to develop these areas, spanning the

period 2006-2016. Some of the projects, such as the expansion of the Colombo Port, building new ports and developing highways, have already started. The timely implementation of these projects is necessary in order to develop Sri Lanka as a trading and logistics hub.

- (e) Changing the mindsets of the people involved in the import/export process is important in order to successfully implement the projects. Incentives should be used so that the relevant workers (who would receive fewer unofficial payments) would adopt the projects.
- (f) The Government of Sri Lanka should take measures to introduce new policies and changes to existing policies in order to improve trade facilitation. Although the Customs Ordinance and subsidiary legislation, which are over 100 years old, have been revised 26 times since 1978, further measures should be taken to make the necessary amendments in order to improve trade facilitation.

Annex

Case study on the garment industry in Sri Lanka

The garment industry emerged in the 1970s and developed into a major sector of the economy, protected by the Multifibre Arrangement and fuelled by investment incentives, the low cost of production, and the skilled and trainable workforce the country offered. Contrary to the general opinion that the garment industry in Sri Lanka would fold with the expiration of the Multifibre Arrangement, the industry has shown resilience and continued to grow despite a slowdown in export earnings in 2005 (Wijayasiri and Dissanayake, 2008).

In terms of industrial production, foreign exchange earnings and employment generation, the garment sector contribution to the Sri Lankan economy is still large. Being the largest contributor to the national economy, it contributes 8 per cent to GDP and accounts for 40 per cent of total exports. It is the largest foreign exchange earner, taking in \$3.4 billion (42.6 per cent of Sri Lanka's exchange revenue) in 2008. The industry generates over 300,000 jobs in direct employment and about 1.2 million in indirect employment. The country's garment industry has built an international reputation for quality, reliability and innovation, and caters to a number of internationally reputed brands such as Nike, Gap, Marks & Spencer and Victoria's Secret.

Trade and transport facilitation is especially important to the garment industry for a number of reasons, including:

- (a) *Heavy dependence of the industry on imported material as inputs.* The industry is heavily dependent on imported materials (fabrics and accessories) from East Asia given that the local textile industry does not have the capacity to supply the quantity and quality of textiles required by the export-oriented garment industry. In 2006, \$1.2 billion worth of textiles and accessories were imported as inputs for the industry. Inputs not received on time lead to the inactivity of production lines, which leads to considerable losses.
- (b) *The need to enter higher-value market segments and become a total service provider.* With the phasing out of the Multifibre Arrangement, the garment industry has focused on niche markets, which require shorter delivery cycles. Furthermore, since the garment industry in Sri Lanka has lost some of its competitive advantage in prices, it is necessary to offer better services to its customers. In this context, it is imperative to have the required trade and transport facilitation for Sri Lanka to become a total service provider for its customers.

- (c) *The need to be cost competitive.* With the ending of the measures against China and the possible loss of the Generalized System of Preferences, it is vital that the industry attempts to be competitive in prices as well. Since input costs and labour costs are relatively high in Sri Lanka, it is necessary to reduce administrative and other related costs, especially at customs, the ports, and so forth, in order for the final product to be price competitive.

The garment industry has been vociferous in advocating for more developed trade and transport facilitation in the country, especially for a fully fledged EDI system. The need for better trade and transport facilitation is being felt strongly due to high competition in the market place.

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